



Introduction

Congress created the National Commission to Ensure Consumer Information and Choice in the Airline Industry in Section 228 of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, P. L. 106-181 (AIR-21), which became law on April 5, 2000. The Commission was directed to study:

- (1) Whether the financial condition of travel agents is declining and, if so, its effect on consumers, and
- (2) Whether there are impediments to obtaining information about the airline industry's services and products and, if so, the effect of such impediments on travel agents, online distributors and consumers.

Based on its study, the Commission was requested to make such recommendations as it considers necessary to improve the condition of travel agents, especially small agents, and to improve consumer access to travel information. The Commission's report and recommendations to the President of the United States and the Congress are to be completed within six months after its formation. Since the Commission was formed on May 16, 2002 with the appointment of its last Commissioner, the report is due by November 15, 2002. The statute is attached as Appendix A.

Of the nine Commission members, the Secretary of Transportation, Norman Y. Mineta, appointed three: one to represent travel agents, a second to represent airlines and a third, mandated to be independent of both those groups, who serves as chairman. In addition, the Senate and House leadership appointed three members each. Three of these six members are from the travel agent community, two from the non-aviation business community and one from the airline industry. Biographies of Commission members are attached as Appendix B.

The statute requires that, as part of its deliberations, the Commission pay special attention to the condition of travel agencies with \$1 million or less in annual revenue. The Commission has determined that almost 95 percent of all agencies meet that standard, and are therefore subjects of special concern to both Congress and the Commission. Our explanation of this calculation is contained in Appendix C.

Pursuant to its mandate, the Commission has conducted extensive hearings, and received excellent testimony from many participants in the industry. Hearings with industry participants were held in Washington, Chicago, and San Francisco. At each of these, the Commission specifically solicited testimony from owners of small travel agencies. A final hearing, with testimony from experts retained by the Commission and academics, was held in Washington. Appendix D includes a complete list of witnesses at all hearings. A summary of testimony before the Commission is in Appendix E, and the verbatim testimony may be found on the Commission's web site, www.ncecic.dot.gov.

Throughout the hearing process, the Commission was concerned about both travel agents and consumers. We heard several proposals for regulatory changes, and judged them not only by whether they would help travel agents, but also whether they would benefit or harm consumers. In some cases, we rejected proposed solutions because they would adversely affect consumers. We believe that consumers are benefiting from the changes that the Internet and airline competition have created in the distribution system.

Continuing strategic changes in the airline industry, as well as the revolution in business powered by the Internet, have produced an upheaval in the distribution of travel information. In testimony before the Commission, it was evident that many agents have accommodated themselves to these changes. But others are having difficulty adjusting to the new environment. Several agents told us that, since the airlines began to cut commissions, their revenue has declined 50 percent or more, even when they charge customers service fees. Other travel agent witnesses advised that they have reduced staff and closed offices. One agent testified:

"There are, in my hometown, five major agencies that have been strong competitors of mine that are now . . . either on the auction block or looking to be purchased. . . . I don't think you've begun to see yet what the effect of all this is going to be. I think a lot more agencies are going to go down the tubes. Just because you have to make a living at it. . . . I raised three children and supported a family on this business. So it's pretty serious stuff. And . . . some of my strongest competitors are thinking about getting out."

The Commission realizes that many agents have been harmed significantly by changes in the industry and are looking to the Commission for a solution to their problems. The Commission is sympathetic to

these concerns and has carefully considered witnesses' testimony and recommendations.

However, the underlying problem is that the entire travel industry has been transformed by fundamental technological change as well as intense, deregulation-driven airline competition. Agents are caught up in the momentum of a competitive marketplace. Even as agencies suffer, airlines must cope with difficult economic times: they have lost billions of dollars, because of the weak economy, the fallout from September 11th, and their own high costs. In this environment, the Commission is reluctant to suggest solutions that would impose additional costs on carriers, or to attempt to regulate a highly fluid and competitive distribution system. Therefore, the Commission is not prepared to recommend new regulatory schemes at this time.

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The instability in the airline industry, and the changes certain to continue in technology, require that travel agencies modify their business plans to prepare for the inevitability of change. Certainly, it is easier to write these words than to implement them. Most airline tickets are still sold through travel agencies, and many travel agencies have been in business for decades. In fact, a significant number of agencies carry on a multi-generational family tradition of providing valued customer services.

Unless they adapt to the new world of travel distribution, it is difficult to see how travel agents will survive these upheavals, as well as the current and future economic downturns. The market is in flux. New information technologies and software are both inevitable and a desirable feature of American business. Nor can the market be recast to resemble its traditional structure. Instability in all industries, including those involved in travel distribution, is an unavoidable fact of business life.

While travel agents are forced to adapt to new circumstances not of their making and are often caught in the middle of economic restructuring of airline-CRS relationships, some consumers also feel the impact of these changes. New security requirements complicate and slow the travel process. Airlines have shifted costs so that consumers now pay fees for services formerly bundled into ticket prices, and also pay extra for flexibility or features that had been previously provided at no charge. To assist and protect consumers faced with these changes, the survival of independent travel distributors is essential.